



ANNUAL REPORT
FISCAL YEAR END – JUNE 30, 2003



**FINANCIAL STATEMENTS - UNAUDITED
FISCAL YEAR ENDED JUNE 30, 2003**

**INTELENET COMMISSION
FINANCIAL STATEMENTS – UNAUDITED
FISCAL YEAR ENDED JUNE 30, 2003**

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This section of the Intelenet's annual financial report presents an overview of the Intelenet Commission and discussion and analysis of the Intelenet's financial performance for the year ended June 30, 2003. Please read it in conjunction with the Intelenet's financial statements, which follow this section.

OVERVIEW OF THE INTELENET COMMISSION

Intelenet Commission Mission:

The Intelenet Commission's mission is to provide cost-effective, current technology telecommunications network services and information gateway services to its public sector customers, comprised of state agencies, higher education institutions, K-12 school corporations, public libraries, local government entities and other authorized users.

Intelenet offers a full spectrum of services ranging from high-speed data access, distance education video services as well as long distance voice network services. The Intelenet Commission enters into service contracts with various network vendors for backbone networks, access circuits, network management services as well as Internet-based gateway services.

Organizational Structure:

The Intelenet Commission was chartered in 1986 by the Indiana Assembly as an Indiana body corporate and politic under IC 5-21. The Intelenet Commission operates under an enterprise fund and GAAP accounting procedures for governmental units. The Commission is composed of designated ex-officio members as identified in IC 5-21, Governor appointees and legislators appointed by the Indiana Assembly. The Intelenet Commission has established By-laws, and utilizes an Executive Committee and Enhanced Data Access Review Committee to oversee operations on behalf of the full commission. An Executive Director manages ongoing operations with assistance from Intelenet Commission staff members.

(See Exhibit A for a listing of Intelenet Commissioners and Intelenet Staff members).

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and the notes to the financial statements.

Intelenet's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the Intelenet are included in the Statement of Net Assets.

The financial statements provide both long and short-term information about Intelenet's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

FINANCIAL HIGHLIGHTS

Intelenet's net assets increased by \$1,302,000 resulting primarily from the continued increase in the Indiana Telecommunications Network services to state agencies, K-12 school corporations, public libraries and other authorized users now totaling 1,800 sites . ITN Operating Revenues increased to \$18,769,500, with the corresponding ITN Costs totaling \$11,531,600 for Fiscal Year 2003.

Access Indiana Gateway Services gross revenues increased to \$19,427,800 and A.I. Net Revenues totaled \$348,400 for Fiscal Year 2003. Intelenet's customers took advantage of the steadily increasing depth of available Access Indiana on-line transactional services throughout the year.

Intelenet Commission's Operating Expenses for Fiscal Year 2003 totaled \$2,251,800, a slight decrease from the prior fiscal year's total of \$2,318,300.

Interest Income from Intelenet's investments of K-12 school corporation and public libraries grant funds and USF funds totaled \$175,800 for Fiscal Year 2003, decreasing from the prior year's total of \$331,300 reflecting the overall decline in interest rates during the year.

Outlook: Certain factors that may affect future results:

The Intelenet Commission has lowered ITN monthly service prices effective with the beginning of Fiscal Year 2004. These price changes are projected to reduce net income by approximately \$100,000 per month. It is anticipated that the revenue decrease is manageable, given the continuance of the present level of customer penetration.

Intelenet, together with its ITN network manager, IHETS will be positioning newer technology telecommunication equipment (primarily routers) at customers' premises during Fiscal Year 2004 to support digital video transmissions over the network using Internet protocol.

The Intelenet Commission anticipates receiving state government grant funds for its K-12 school corporation and public library customers during early Fiscal Year 2004. These funds, together with USF discounts, enable Intelenet to pay a substantial portion or all of the monthly service costs for those customer groups network services (typically a single T-1 circuit). If those grant funds aren't forthcoming or arrive later on in the fiscal year, the Intelenet Commission may be required to initiate service billings directly to the customers for the portion of the price not covered by such grant funds. Such action may result in some decrease in the customer base.

Financial Projections:

Summary level financial projections for Fiscal Year 2004 is as follows:

Total Operating Revenues	\$45,516,800
Total Cost of Sales	\$39,687,600
Gross Income	\$5,829,200
Operating Expenses	\$2,464,600

Interest Income	\$108,000
Net Income	\$3,472,600

FINANCIAL ANALYSIS

Net Assets

Intelenet's total assets at June 30, 2003 reached approximately \$20, 160,000.

Current Assets

Intelenet's Cash and Cash Equivalents totaled \$12,334,600 at the end of Fiscal Year 2003. This included \$6,500,000 in certificates of deposit and money market certificates held in Fifth Third Bank, Old National Bank and First Internet Bank of Indiana. This amount was sizably reduced from the prior year's total of \$16,067,000 due to non-receipt of USF funds for the current fiscal year, which weren't approved for disbursement by the FCC's USF funds administrator, Schools and Libraries Division, until March 2003. This increased the USF Receivables to \$2,973,400 at the end of Fiscal Year 2003, up from the prior year's total of \$42,000. Accounts Receivable, other than USF Receivables, totaled \$2,814,000 at the end of Fiscal Year 2003, down slightly from the prior fiscal year's total of \$2,923,000.

Fixed Assets

The Intelenet Commission's Fixed Assets as of the end of Fiscal Year 2003, net of Accumulated Depreciation, totaled \$1,827,400 as compared to Fiscal Year 2002's net fixed assets total of \$1,986,200. During Fiscal Year 2003 acquired some Cisco switching equipment used in the ITN network services through an early buyout of capital leases held by Cisco Systems Capital Corp. The remaining capital leased assets as of the end of Fiscal Year 2003, net of accumulated depreciation, totaled \$1,212,700.

Current Liabilities

Accounts Payables for Fiscal Year 2003 totaled \$1,381,500, down from the prior fiscal year's total of \$3,252,900. During Fiscal Year 2003, the Intelenet Commission completely paid off a \$450,000 loan from the Indiana Higher Education Telecommunication System (IHETS). USF Discounts Payable to K-12 school corporations and public libraries as of the end of Fiscal Year 2003 totaled \$3,261,200.

Deferred Income/Long Term Liabilities

The Indiana Department of Administration, Division of Information Technology (DoIT) prepayments for ITN services as of the end of Fiscal Year 2003 totaled \$2,838,300 as compared to the prior fiscal year's total of \$3,574,100. Capital Lease payables as of the end of the current fiscal year totaled \$1,026,300. Other Deferred Income and Agency Accounts totaled \$160,700 and \$283,400, respectively as of the end of Fiscal Year 2003.

Reserve Funds

The Intelenet Commission continued to hold state grant funds for the K-12 school corporations and public libraries totaling \$5,754,700 as of the end of the fiscal year. However, the state grant funds held for the public libraries have been essentially depleted. Other Reserves included higher education entities prepayments for ITN services, which are billed once a year and as of the end of Fiscal Year 2003 was a negative \$189,400.

Enterprise Fund Balance

Intelenet's Total Retained Earnings as of the end of Fiscal Year 2003 totaled \$11,207,900 as compared to the prior fiscal year's total of \$9,905,700.

Unobligated Cash

Unobligated or unreserved funds held by the Intelenet Commission as of the end of Fiscal Year 2003 totaled a positive \$3,972,300 as compared to Fiscal Year 2002's total of a negative \$646,100.

Changes in Net Assets

Operating Revenues:

Total operating revenues for Fiscal Year 2003 totaled \$49,785,400 as compared to \$37,796,500 for Fiscal Year 2002. The Indiana Telecommunication Network (ITN) Revenues for Fiscal Year 2003 totaled \$18,769,500 as compared to the prior year's total of \$11,106,900. Fiscal Year 2003 was the first full year that Intelnet's financials reflected the total ITN operations including operating revenues and corresponding cost of sales. ITN provided high capacity network services to Intelnet's public sector customers at approximately 1,800 sites statewide as of the end of the fiscal year.

Access Indiana Gateway Service Revenues totaled \$19,427,800 for Fiscal Year 2003. Of this gross revenue total, the Intelnet Commission receives 2%, equating to \$380,900 as a contract management fee. Access Indiana provides its gateway (website-based) services predominantly free to the citizens of the state. Commercial customers access certain records electronically and pay convenience fees to Access Indiana. These services are funded totally without taxes.

Data Revenues for Fiscal Year 2003 totaled \$472,100 and consisted primarily of ongoing revenues for five DS-3 (45 Mbps) circuits connecting several of Indiana University's campuses. Grant Revenues consists of one state grant from the Indiana State Library, for \$3,416,900. Intelnet received no state grants on behalf of K-12 school corporations during Fiscal Year 2003. WAN Service revenues of \$457,900 for Fiscal Year 2003 were for overall administrative services provided by Intelnet for the state agencies WAN.

Long Distance Service Revenues of \$245,500 for Fiscal Year 2003 were down slightly from the prior year's total of \$263,300 and reflects the lower prices available from Qwest during all of the fiscal year. A smaller number of Intelnet's customers continue to be provided long distance service from AT&T.

Cost of Sales

Cost of Sales for Fiscal Year 2003 totaled \$46,231,400 as compared to the prior fiscal year's total of \$32,142,900. Again, Fiscal Year 2003 was the first full year that ITN's business costs, lease equipment costs and interest were included on Intelnet's books of account. The ITN Costs for Fiscal Year 2003 totaled \$16,953,800 for business costs, \$797,200 for capital lease costs and \$68,300 for interest expense on those leases.

Grant expenses totaled \$7,429,400 and were distributed on behalf of the state's K-12 school corporations and public libraries during Fiscal Year 2003. Lease Line Costs of \$153,300 were for the provision of dedicated circuits for Project Hoosier Safe T, provided to state agencies separately from ITN services. Also during Fiscal Year 2003, the Intelnet Commission began offering specialized network consulting services (value added services) to certain of its public sector customers to enhance the utilization of network services provided. Technical Consulting costs were incurred from contracted resources assisting in this new service offering.

Gross Income

Gross Income for Fiscal Year 2003, consisting of operating revenues less direct cost of sales, totaled \$3,554,000 as compared to Fiscal Year 2002's total of \$5,633,700. FY 2003's Gross Income equaled 7.1 % of total operating revenues.

Operating Expenses

Total Operating Expenses for Fiscal Year 2003 was \$2,251,800 as compared to the prior fiscal year's total of \$2,318,300. Salaries, taxes and benefits costs totaled \$1,589,500 decreasing slightly from Fiscal Year 2002's total of \$1,597,300. Professional Services total of \$285,200 also decreased slightly from the prior year's total of \$309,300. Depreciation expenses, primarily on the switching equipment now owned by Intelenet and formerly leased from Cisco Systems Capital Corp., totaled \$330,900 during the fiscal year.

Other Income

The Intelenet Commission earned interest on certificates of deposit, money market certificates and a sweep account during Fiscal Year 2003, totaling \$175,800. This total was down markedly from the prior year's total of \$331,300 primarily due to the decline in interest rates and the reduced amount of state grant funds and USF funds held by Intelenet during the fiscal year.

Net Income

Intelenet's Net Income for Fiscal Year 2003 totaled \$1,477,900, up sizably from the prior fiscal year's total of \$3,666,700. Net Income equaled 3.0% of Total Operating Revenues for the fiscal year.

Capital Assets and Debt Administration

Capital Assets

Intelenet's capital assets consist primarily of equipment and infrastructure costs to support technology services. As of June 30, 2003, Intelenet had invested \$7,189,000 in capital assets that have a remaining depreciated value of \$1, 827,400. As compared to the prior year, this amount represents a decrease (including additions and disposals) of \$158,800.

Debt Administration

On occasion, Intelenet enters capital lease agreement to finance the purchase of capital assets or borrows money from related parties for short term financing of new services. At June 30, 2003 and 2002, Intelenet had an outstanding capital lease liability of \$1,026,303 and \$1,711,159. At June 30, 2003 and 2002, outstanding loans payable were \$0 and \$450,000.

**INTELENET COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS
Year ended June 30, 2003 and 2002**

EXHIBIT A - INTELENET COMMISSION ORGANIZATION CHART

Organizational Status at June 30, 2003

The following organization charts identify the membership of the Intelenet Commission and its staff. Stan Jones, Commissioner of the Commission for Higher Education continued as Commission Chair; and, Laura Larimer, Director, Division of Information Technology and Lt. Governor's Representative, continued as Commission Vice Chair, having been elected for one year terms in the Full Commission meeting conducted June 24, 2002.

The Commission Chair and Vice Chair are assisted on the Commission's Executive Committee by: Chuck Coffey, Director of Communication Research, and Governor's Representative; Mike Landwer, Deputy Director, State Budget Agency; Steve Abbott, Deputy Commissioner, Indiana Department of Administration; Dave King, Executive Director - IHETS; Marci Reddick, Partner, Hackman, Hulett & Cracraft and Jerry Sullivan, Executive Director.

Other voting members on the Commission include: Dr. Suellen Reed, Superintendent of Public Instruction; Barbara Maxwell, Director, Indiana State Library; and, two governor appointee vacancies.

State Legislative members include: Representative Matt Pierce, Bloomington; Representative L. Jack Lutz, Anderson; Senator Lindel Hume, Princeton and one Republican Senatorial vacancy.

Voting Members:

Designated by Law (IC 5-21)

Mike Landwer	State Budget Agency
Chuck Coffey	Governor's Representative
Steve Abbott	Dept. of Administration
David King	IHETS
Dr. Suellen Reed	Dept. of Education
Barbara Maxwell	Indiana State Library
Laura Larimer, Vice Chair	Lt. Governor's Representative

Members Appointed by the Governor

Stan Jones, Chair	Vacancy
Vacancy	Marci Reddick

Non-Voting Members:

Members Designated by Law (IC 5-21)

Jerry Sullivan, Executive Director

Members Appointed by the Legislature (IC 5-21)

**INTELENET COMMISSION
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Rep. Matt Pierce
Rep. L. Jack Lutz

Sen. Lindel Hume
Vacancy

INTELENET COMMISSION
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Year ended June 30, 2003 and 2002

EXHIBIT A - INTELENET COMMISSION – ORGANIZATION CHART

Jerry Sullivan
Executive Director

Kent Champagne
Director of Business
Services

Geoff DePriest,
ITN Business
Manager

Dan
Dovenbarger
General Counsel

Charlie Sharp
Director of
Operations

Ken Scales
Director Indiana Web
Academy

At DoIT:
Jon Yaste
Accountant

Clem Bello
Senior Accountant

Marcia Ping
Manager Grants & USF
Programs

Dick Holmes
Technical &
Contracts Mgr

Amy Conway
Education Res. Mgr
Resources Manager

Dennis Neuenschwander
Snr Sys Analyst

Alberta Robinson
Lead Accountant

Terry Bradshaw
ITN Accounting Mgr

Matt Ryan
Program Mgr

Tim Walker
Education Manager

Dan Neuenschwander
Systems Analyst

Ann Gioscio
Office Coordinator

Randy Coker
Grant Analyst

Chad Miller
Manager LAN
Admin.

Andrew Greensburg
Web site Coordinator

George Mann
Snr Sys Analyst

Marsha James
Tele. Contract Admin

Tammy Sturgill
Project Manager

Brandi Cunningham
Office Coordinator

J. R. Love
Snr Sys Analyst

Kelly Sharp
Public
Information
Officer

Ben Bunn
IT Systems Admin.

Lien Quan Nguyen
Program Developer

Curtis Zook
Voice Technician

Danielle Abbott
Mgr., Database Ops.

Tim Showalter
Network Manager

Brian Wallace
Senior Voice Data

INTELENET COMMISSION
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Education Coord. :

Shaun Sharp
Warehouse Tech

Meri Carnahan
S. Scaufelberger
Danielle Parton
Cynthia Breneman
Sherry Allen
Toni Mitchell

Kevin South
Snr Network Security
Engineer

Snr Network Engineers:
Jeff Duke
Terry Foster
Mike Hicks

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Intelenet Commission (Intelenet) is a body corporate and politic created under Indiana Code 5-21-1 enacted by the General Assembly of the State of Indiana. Intelenet is authorized to plan, develop, contract, and manage statewide, integrated telecommunications networks and information technology services that meet the needs of its authorized users. A telecommunications network enables data, voice, video, and images to be transported from place to place. Authorized users of Intelenet services typically include, but are not limited to, public schools, libraries, colleges and universities, community hospitals, state/local governments, and community networks.

An important service and capability of Intelenet's public transport network is Internet access, which is critical in today's interconnected world where the widest possible communication and sharing of information are essential. Intelenet's strategic approach is to use this open systems architecture as the foundation of its infrastructure deployment. New telecommunications requirements and applications can then be scaled or expanded from this foundation. Emerging applications may include interactive distance education, telemedicine, administrative videoconferencing, and other higher-bandwidth services, all of which are being integrated into the Indiana Telecommunications Network.

Measurement Focus, Basis of Accounting and Financial Reporting: The accounting policies of Intelenet conform to accounting principles generally accepted in the United States of America as applicable to governments. The government wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Intelenet accounts are organized into a single proprietary fund. Intelenet's operations are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs of providing services on a continuing basis be financed and recovered primarily through user charges. Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing technology services. Operating expenses include the cost of providing services, administrative services, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Commission has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting". The Commission has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Change in Accounting: Intelenet adopted the provisions of GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, (Statement 34) and GASB Statement 33, *Accounting and Financial Reporting for Non-exchange Transactions* (Statement 33) for the year ended June 30, 2002. Statement 34 establishes financial reporting standards for all state and local governments and related entities. For Intelenet, Statement 34 primarily relates to presentation and disclosure requirements and has no impact on net assets. The impact was on the presentation of net assets and cash flows and the inclusion of the management discussion and analysis and other required supplemental information. Statement 33 requires proprietary funds to recognize capital contributions as revenues, not as direct additions to contributed capital.

Intelenet also adopted the provisions of Governmental Accounting Standards Board Statement No. 38, *"Certain Financial Statement Note Disclosure"* (Statement 38). Statement 38 establishes and modifies certain financial statement note disclosure requirements to make the financial statements more useful in the context of the Statement 34 reporting model. Statement 38 had an impact on the presentation of the notes to the financial statements, but no impact on net assets.

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassification: Certain information for 2002 has been reclassified to conform to the current year presentation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents: Cash and cash equivalents are defined as short term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity.

Fixed Assets: The capitalization policy is to recognize all assets with cost of \$1000 or more. Depreciation of fixed assets is computed on a straight-line basis ranging from 3 to 4 years.

Universal Service Fund (USF): In accordance with Indiana Code 201-0.1-25.6-3, Intelenet serves as the administrator to coordinate the public schools and libraries Internet access rate reductions provided by the federal Universal Service Discount program. The Schools and Libraries Universal Service program was established as part of the FCC Telecommunications Act of 1996 to provide affordable telecommunications services for all eligible schools and libraries, especially those in rural and economically disadvantaged areas.

USF Accounts receivable and related revenues have been recorded for amounts due to Intelenet during the fiscal year. In addition, USF Accounts payable and related expenses are recorded for amounts due to the schools and libraries at year-end.

Agency Accounts: Intelenet acts as a fiduciary for funds related to its core activities. Receipts and disbursements in the agency accounts are not recorded as an operating activity of Intelenet.

Deferred Income: Liabilities for deferred income are maintained for payments received by Intelenet in advance of the service period provided. Upon providing the services, the income is recognized.

Fund Equity: Reservations of fund equity represent those portions of retained earnings that are legally segregated for a specific purpose. The following is a brief description of the each reserve account:

Reserve for State Technology Grants to Schools - established to recognize balances retained for purposes specified in Indiana Code 4-34-3-4.

Reserve for State Technology Grants to Libraries - established to recognize balances retained for purposes specified in Indiana Code 4-34-3-2.

Reserve for Access Indiana Marketing - established to recognize balances retained for specified purpose of a state grant for marketing costs for the Access Indiana network.

NOTE 2 - CASH AND CASH EQUIVALENTS

The deposits with financial institutions at year-end were entirely insured by federal depository insurance or by the Indiana Public Deposit Fund. Cash and cash equivalents include the following at June 30, 2003:

Checking Accounts	Certificates of Deposit
	6,500,000
Total cash and cash equivalents	<u>\$ 12,334,641</u>

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2003 include primarily amounts due from telecommunication providers and the state and local government agencies using Intelenet services. Accounts receivable are aged as follows:

0 - 30 days	\$2,601,958
31- 60 days	(8,939)
61 - 90 days	(2,642)
Over 90 days	223,618
Total accounts receivable	<u>\$2,813,995</u>

Accounts receivable - USF represents amounts due for reimbursement for schools and libraries under the USF Discount program:

Schools	\$ 1,965,600
Libraries	<u>1,007,823</u>
Total	<u>\$ 2,973,423</u>

Accounts payable - USF represents amounts due to schools and libraries under the USF Discount program:

Schools	\$1,184,078
Libraries	<u>2,077,134</u>
Total	<u>\$3,261,212</u>

NOTE 4 - AGENCY ACCOUNTS

Agency Accounts consist of the following at June 30, 2003:

GIS Project	\$ 13,669
Critical Access Hospitals Grant (CAH)	25,596
Supreme Court Webcasting	130,057
Transfer Payment Payable	109,575
Indiana Community Network Operation	<u>42,991</u>
	<u>\$ 321,588</u>

NOTE 5 - EQUIPMENT

Equipment consisted of the following at June 30, 2003:

Furniture and Fixtures	\$ 111,411
Computer Equipment	335,440
Leasehold Improvements	30,026
Telecom Equipment	1,230,187
Capital Lease Equipment	4,923,423
ITN Purchased Equipment	<u>558,510</u>
	7,188,998
Less: Accumulated Depreciation	<u>(5,361,567)</u>
	<u>\$ 1,827,431</u>

NOTE 6 - LEASES

Operating Leases: Intelenet leases its facilities under a noncancelable operating lease, which became effective on January 1, 1999 and expires on November 14, 2006. Office rent expense for the year ended June 30, 2003 was approximately \$148,000.

As of June 30, 2003, future minimum lease payments under the facility lease agreement are as follows:

2004	\$ 250,974
2005	134,857
2006	112,694
2007	<u>42,457</u>
	<u>\$ 540,982</u>

NOTE 6 - LEASES (Continued)

Intelenet completed payment during FY 2003 on four operating lease agreements that provide support for the backbone infrastructure but is not part of the infrastructure. Expenses recorded for these leases for the year ended June 30, 2003 are as follows:

Lease #7 - AS5800 Dial up Access	\$ 10,989
Lease #8 - Interface cards	17,838
Lease #9 - FRSM cards	14,489
Lease #11 - Videoconference control units	<u>10,191</u>
	<u>\$ 53,507</u>

Capital Leases: Intelenet has entered into an equipment procurement contract and master capital lease agreement in 1998 for telecommunications switching equipment and other equipment for the statewide backbone network. Future minimum lease payments under the twelve capital leases are as follows:

2004	479,652
	<u>352,152</u>
2006	5,888
	<u>837,695</u>
Amount representing interest	<u>(35,544)</u>
Present value of future minimum lease payments	<u>\$ 802,151</u>

The gross amounts of property and equipment and related accumulated amortization recorded under capital leases are as follows:

Property and equipment	Accumulated amortization
	<u>(3,710,734)</u>
	<u>\$ 1,212,689</u>

NOTE 7 - IHETS LOAN PAYABLE

As part of Intelenet's project of building of the ITN, Intelenet entered into an agreement to borrow \$4,836,175 from IHETS during FY 2001. An addition \$450,000 was borrowed during FY 2002. These agreements were for short term financing of ITN development costs until other funds were made available to cover anticipated costs of ITN development. The balance at June 30, 2003 was \$0 and \$450,000 at June 30, 2002.

NOTE 8 - DEFERRED INCOME - ITN

During FY 2002, Intelenet entered into an agreement with the DoIT to further develop the ITN to better meet the needs of state agencies using ITN services. DoIT agreed to prepay \$3,812,688 for future ITN services to help support the additional cost of providing additional resources and network service costs. As ITN and related services are incurred, the deferred income is amortized to revenue to match the cost of providing ITN services. The remaining balance at June 30, 2003 and 2002 was \$2,795,250 and 3,574,148.